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SUBJECT: SOUTH AFRICA ECONOMIC NEWSLETTER
March 18 2005 ISSUE

11. Summary. Each week, AMEmbassy Pretoria publishes an economic newsletter based on South African press reports. Comments and analysis do not necessarily reflect the opinion of the U.S. Government. Topics of this week's newsletter are:

- Major Revisions for ICT Charter?;
 - Secondary Tax Stays;
 - Vacant Land Prices Increase More Than Houses;
 - Trade and Industry Encourages Co-ops;
 - Business Confidence Remains High; and
 - South African Household Debt Still Affordable;
- End Summary.

MAJOR REVISIONS FOR ICT CHARTER?

12. Business Day reports that after two years of work developing a black economic empowerment charter for the information and communications technology (ICT) sector, a new steering committee is drafting a replacement charter for the sector. Problems arose because the original ICT working group did not represent 70 percent of the sector, including foreign-based multinationals, cellular operators, broadcasting firm MultiChoice and state-owned enterprises such as Telkom. The new charter may contain some of the empowerment targets thrashed out in a final draft issued last year by the working groups, but much of the content is likely to be entirely new. The charter was due to be implemented on March 1, but the final draft was halted during talks with business, government and the National Economic Development and Labor Council (NEDLAC), when Telkom, the cellular operators and MultiChoice refused to sign. Some of the original participants in the working group are accusing the large corporations of hijacking the process, while the corporations say the initial process was misguided and unrepresentative. It has also delayed the signing of empowerment deals, as companies wait to see exactly what is required before they bring in black partners. Analysts suggested that the process was flawed because of the lack of early involvement of large corporations, organized labor and civil society. According to the article, a steering group representing NEDLAC, telecommunications companies, multinationals, government and the original ICT working group is now drafting a new charter. Points of contention include: (1) a dispute over how much equity black investors must own in companies, including the multinationals; (2) the composition of a body to oversee the empowerment process and to score companies on their efforts; and (3) whether broadcasting and telecommunications companies governed by the Independent Communications Authority of SA should abide by the charter, or should follow the authority's stricter empowerment rules. Source: Business Day, March 16.

13. Comment. Reaction to the Business Day article was swift, with both Reuters and ITweb publishing refuting accounts later on the same day as Business Day published its article. Both refuting articles dispute having to scrap the previous two years work on the charter and assert that the charter is still expected to be final by mid-2005. The Reuters article confirmed strongly the 30 percent ownership target, citing Joe Mjwara, the head of the Information, Communication and Technology's steering committee as its primary source. The ITweb article uses other representatives from the steering committee that confirm delays, but also expect that the charter will be presented to Parliament on time. End comment.

SECONDARY TAX STAYS

14. Finance Minister Trevor Manuel reaffirmed his support of the secondary tax on company dividends, saying it would remain "as long as the African National Congress (ANC) is in government." Calls for the tax removal, introduced to

encourage companies to retain income for investment, were made by various business organizations during parliamentary submissions on the 2005-06 budget proposals. The Democratic Alliance (DA) also called for a phasing out of the tax, saying that government should set a target corporate tax rate of 25 percent over a specified time period. In his budget speech last month Manuel announced a cut of one percentage point in the corporate tax rate to 29 percent. The result of the lower corporate rate is that the aggregate rate, including the secondary tax on companies on a full-profit distribution, will be 36.89 percent compared to the previous rate of 37.78 percent. Figures tabled in Parliament this week by Manuel showed that the corporate income tax bill (excluding the secondary tax) had risen from R15.6 billion in 1995-96 to R60 billion in 2003-04. Source: Business Day, March 16.

VACANT LAND PRICES INCREASE MORE THAN HOUSES

15. The price of vacant land is growing faster than that of houses in some areas, a trend that could make housing within city limits unaffordable for many. A recent study by property economists and assessors Rode & Associates on Cape Town's Atlantic seaboard showed that the price of serviced vacant land grew at a compound rate of 70 percent a year between July 2001 and January 2005, while house prices in the same area grew by 37 percent and Rode's house price index for upper-priced homes in Cape Town grew by 29 percent a year. Rode said he suspected that similar trends were found in other metropolitan areas. Jacques du Toit, a senior economist at ABSA bank, said indications were that prices of vacant stands in major cities were growing faster than prices of houses, saying that the scarcity of serviced stands (lots of vacant land having access to utilities) was becoming a structural rather than a cyclical phenomenon. The property boom has resulted in demand for land far outstripping supply, creating a sharp upsurge in land prices. Combined with inefficiencies in delivery of infrastructure, this has created a long lag time for land to be subdivided and serviced. In addition, other infrastructure constraints, such as traffic congestion and the absence of an adequate public transport system, as well as increasing urbanization, added to the demand for residential properties in metropolitan areas. Source: Business Report, March 16.

TRADE AND INDUSTRY ENCOURAGES CO-OPS

16. Trade and Industry Minister Mandisi Mphahlele announced the Department's plan to encourage the formation of co-operatives as part of government's job creation strategy. According to Department spokesman Bongani Lukhele, co-operatives are small enterprises that differ from other small enterprise since all participants are equal shareholders. Co-operatives have historically been popular in South Africa especially in the agricultural sector. Lukhele cited stokvels (a savings group) as another example of a co-operative where people join having a common interest. The Department of Trade and Industry established a Co-operatives Unit, looking to start training in co-operative principles and practices, as emphasized by the 2003 Growth and Development Summit. Source: Sapa, March 16.

BUSINESS CONFIDENCE REMAINS HIGH

17. The latest University of Stellenbosch's Bureau of Economic Research business confidence survey shows business confidence high during the first quarter 2005 at 79, although below the 24-year peak level of 88 shown in the last quarter of 2004. A value over 50 indicates optimism while below 50 signifies pessimism about business conditions. The survey contacts 3,000 respondents in the retail, wholesale, motor trade, manufacturing, and building and construction sectors of the economy. The survey was conducted between February 16 and March 10, soon after the South African Reserve Bank decided to leave interest rates unchanged and during the period when gas prices increased by 42 rand cents per liter. Business confidence remained strong due to strong consumer demand; although Rudolf Gouws, chief economist of Rand Merchant Bank, suggests that the dip in confidence suggested a slower increase in domestic expenditure in 2005. Source: Business Day, March 17.

SOUTH AFRICAN HOUSEHOLD DEBT STILL AFFORDABLE

17. According to a Standard Bank study, South African household debt is increasing, but consumers have been able to finance increased debt through credit. Credit has been available due to a combination of low interest rates and rising disposable income. Debt as a proportion of

household disposable income was 55.4 percent in third quarter 2004 compared to 51.4 percent one year earlier. While South Africa's debt levels are increasing, they are low when compared to levels in countries such as the United Kingdom, Japan, and Canada, all of which have household debt to income ratios of over 120 percent. There is no universal threshold for the national debt to income ratio at which household indebtedness becomes unsustainable, although South Africa's low inflation and interest rates suggest that its financing of its debt can continue. Source: Business Report and Business Day, March 17.

FRAZER